SaskTel

Second Quarter Report

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Saskatchewan Telecommunications Holding Corporation

Second Quarter Report 2008
For the Period Ending June 30, 2008

Saskatchewan Telecommunications Holding Corporation (SaskTel) is a Saskatchewan Crown corporation. We are the leading full service communications provider in Saskatchewan, offering competitive voice, data, dial-up and high speed internet, entertainment and multimedia services, security, web hosting, text and messaging services, and cellular and wireless data services over our digital networks. We also provide security monitoring services through SecurTek, directory services through DirectWest, in-room communications services to the healthcare sector through Hospitality Network, telecommunications consulting service and software solutions through SaskTel International and deliver SaskTel products and services outside of the province. Our subsidiaries have significant points of presence throughout Canada and internationally. This presence provides another means to bring back their profits and expertise to Saskatchewan.

SaskTel and our wholly-owned subsidiaries have a workforce of approximately 5,200 permanent, part-time, casual, and temporary employees including all interns, co-op and summer students.

Our vision is "*To improve the lives of everyone we serve each and every time*" and our mission is *"We will go beyond in delivering innovative information, communication and entertainment solutions to our customers in Saskatchewan and other select markets. We will be a socially and environmentally responsible organization that delivers sound financial returns. Our focus is our Customer. Our strength is our People".*

Financial Highlights

Consolidated Net Income

	Three months ended June 30,			Six months ended June 30,		
Millions of dollars, (unaudited)	**2008**	2007	% Change	**2008**	2007	% Change
Operating revenues	**$283.1**	$261.2	8.4	**$560.9**	$518.0	8.3
Operating expenses	**255.3**	253.5	0.7	**490.1**	465.6	5.3
Income from operations	**27.8**	7.7	261.0	**70.8**	52.4	35.1
Other items	**0.6**	0.5	20.0	**1.0**	1.4	(28.6)
Interest and related items	**(6.7)**	(8.2)	18.3	**(11.9)**	(14.8)	19.6
Gain on sale of investments	**-**	-	*nmf*[1]	**-**	0.6	*nmf*[1]
Net income (loss)	**$21.7**	$0.0	*nmf*[1]	**$59.9**	$39.6	51.3

SaskTel's consolidated net income for the second quarter of 2008 was $21.7 million up from the nominal loss for the same period in 2007.

Year-to-date net income is $59.9 million, up $20.3 million from 2007. Operating revenues increased by 8.3% from the same period last year with continued strong growth by the cellular and *Max*™ Entertainment Services portfolios as well as growth in subsidiary revenues. Operating expenses increased 5.3% from the same period last year. Direct expenses increased as a result of revenue growth and depreciation increased as a result of increased plant in service, partially offset by reduced restructuring charges.

[1] No meaningful figure (*nmf*)

Management Discussion and Analysis

Forward-Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of SaskTel for the second quarter 2008. This discussion and analysis should be read in conjunction with SaskTel's audited financial statements for the year ended December 31, 2007. Some sections of this discussion include forward-looking statements about SaskTel's corporate direction and financial objectives. A statement is forward-looking when it uses information known today to make an assertion about the future. Since these forward-looking statements reflect expectations and intentions at the time of writing, actual results could differ materially from those anticipated if known or unknown risks and uncertainties impact the business, or if estimates or assumptions turn out to be inaccurate. As a result, SaskTel cannot guarantee that any of the predictions forecasted by forward-looking statements will occur. As well, forward-looking statements do not take into consideration the effect of transactions or non-recurring items announced or occurring subsequently. Therefore, SaskTel disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a full discussion of risk factors, please consult Management's Discussion & Analysis in SaskTel's 2007 annual report. These interim statements have been prepared in accordance with the Canadian Institute of Chartered Accountants section 1751, "Interim Financial Statements." These interim statements have been approved by the SaskTel Board of Directors.

Results of Operations

Operating revenues

Millions of dollars	2008	2007	Change	%
Three months ended June 30,	**$283.1**	$261.2	$21.9	8.4
Year-to-date	**$560.9**	$518.0	$42.9	8.3

Operating revenues for the second quarter were $283.1 million, an increase of $21.9 million over the same period in 2007. Year-to-date operating revenues were $560.9 million which represents a $42.9 million increase over 2007. Revenue growth continues to be driven by growth in cellular, *Max* Entertainment and Internet services as well as sales of customer premise equipment and subsidiary revenues.

Operating expenses

Millions of dollars	2008	2007	Change	%
Three months ended June 30,	**$255.3**	$253.5	$1.8	0.7
Year-to-date	**$490.1**	$465.6	$24.5	5.3

Operating expenses were $255.3 million for the second quarter, up $1.8 million from the same period in 2007. Year-to-date, expenses increased to $490.1 million, up $24.5 million from 2007. The increase was primarily to support revenue growth in cellular, *Max* Entertainment and Internet services. Also included in the year-to-date 2008 results are salary and benefits increases to all employees resulting from ratification of the new collective agreement in 2007 and increases to depreciation and amortization expenses due to increased plant in service, partially offset by reduced restructuring charges.

Interest and related items

Interest and related items were $6.7 million for the second quarter, down $1.5 million from the same period in 2007. Year-to-date, interest and related costs were $11.9 million, down $2.9 million from 2007 due primarily to the change in fair value of sinking funds.

Liquidity and Capital Resources

Cash provided by operating activities

Millions of dollars	2008	2007	Change	%
Three months ended June 30,	**$56.9**	$46.3	$10.6	22.9
Year-to-date	**$112.6**	$90.5	$22.1	24.4

Cash provided by operating activities during the second quarter of 2008 was $56.9 million, up $10.6 million from the same period in 2007. Cash generated by operations increased $12.7 million in the second quarter of 2008 as compared to 2007, but was partially offset by increased working capital requirements of $2.1 million mainly as a result of reduced accounts payable due to timing of payments to suppliers.

Cash provided by operating activities in the first six months was up $22.1 million when compared to the same period in 2007. Cash from operations increased $10.6 million and working capital requirements decreased $11.5 million compared to the same period in 2007.

Cash used in investing activities

Millions of dollars	2008	2007	Change	%
Three months ended June 30,	**$36.5**	$41.2	($4.7)	(11.4)
Year-to-date	**$60.6**	$66.3	($5.7)	(8.6)

Cash used in investing activities decreased by $4.7 million to $36.5 million in the second quarter of 2008 compared to the same period in 2007. Year-to-date cash used in investing activities decreased by $5.7 million from the same period in 2007 to $60.6 million in 2008. The decrease can be attributed to a decrease in overall capital spending.

SaskTel's net capital spending for the second quarter of 2008 was $35.5 million, down $3.5 million from the same period in 2007. Net capital spending for the six months ended June 30, 2008 was $58.7 million, down $5.4 million from the same period in 2007. Spending decreased primarily due to reduced spending on the Next Generation Access Infrastructure (NGAI) Program in 2008 versus 2007. Investment continues to support the telecommunications networks and meet customer demand, as well as growth initiatives such as *Max* Entertainment Services, cellular expansion, and multimedia development.

Cash used in financing activities

Millions of dollars	2008	2007	Change	%
Three months ended June 30,	**$12.5**	$7.6	$4.9	64.5
Year-to-date	**$21.3**	$21.3	$ -	*nmf*[1]

Cash used in financing activities during the second quarter was $12.5 million compared to $7.6 million for the same period in 2007. Year-to-date cash used in financing activities was $21.3 million for both 2008 and 2007. During 2008, the Corporation paid a dividend of $19.8 million to Crown Investment Corporation of Saskatchewan compared to $20.0 million for the same period in 2007. Debt repayment activities were consistent with 2007.

Liquidity and capital resource ratios

Debt ratio

	June 30, 2008	December 31, 2007
Debt ratio	**24.5%**	27.7%

The debt ratio as at June 30, 2008 decreased to 24.5% from 27.7% at December 31, 2007. The overall level of net debt decreased $33.1 million due primarily to an increase in cash and short-term investments, as SaskTel continues to self-finance its capital and dividend requirements. In addition, retained earnings increased by $30.4 million to the end of the second quarter after recording net income of $59.9 million and dividends of $29.5 million.

[1] No meaningful figure (*nmf*)

2008 Outlook

The 2007 SaskTel Annual Report identified a consolidated net income target for 2008 of $75.8 million. Results to June 30, 2008 are favourable and we see this trend continuing throughout the year. At this time SaskTel believes that it will exceed the established 2008 net income target.

Risk Assessment

The 2007 Annual Report discusses the risks and uncertainties in SaskTel's business environment. They include developments in the economic and regulatory environments, challenges faced by the defined benefit pension plan, competitive activity and more. SaskTel's basic risk profile remains unchanged as at June 30, 2008. Management continues to monitor individual risks as they change and evolve and employs the industry accepted risk management processes of identification, mitigation, transfer, assumption and control of key risks.

Consolidated Statement of Operations and Comprehensive Income

(Unaudited)

Thousands of dollars	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Operating revenues	**$283,165**	$261,218	**$560,858**	$517,982
Operating expenses				
Operations	**197,842**	190,663	**390,285**	363,133
Depreciation and amortization	**43,049**	41,191	**85,405**	80,348
Restructuring charges (Note 3)	**14,420**	21,689	**14,450**	22,089
	255,311	253,543	**490,140**	465,570
Income from operations	**27,854**	7,675	**70,718**	52,412
Other items	**584**	523	**1,024**	1,377
Interest and related items (note 4)	**(6,709)**	(8,208)	**(11,868)**	(14,761)
Income (loss) before the following	**21,729**	(10)	**59,874**	39,028
Gain on sale of investments	**-**	-	**-**	571
Net income (loss)	**21,729**	(10)	**59,874**	39,599
Other comprehensive income	**-**	-	**-**	-
Comprehensive income (loss)	**$21,729**	$(10)	**$59,874**	$39,599

See Accompanying Notes

Consolidated Statement of Retained Earnings

(Unaudited)

Thousands of dollars	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Retained earnings, beginning of period	**$518,486**	$470,604	**$492,660**	$438,495
Net income (loss)	**21,729**	(10)	**59,874**	39,599
	540,215	470,594	**552,534**	478,094
Dividends	**17,170**	7,500	**29,489**	15,000
Retained earnings, end of period	**$523,045**	$463,094	**$523,045**	$463,094

See Accompanying Notes

Consolidated Statement of Financial Position

As at Thousands of dollars	(Unaudited) June 30, 2008	(Audited) December 31, 2007
Assets		
Current assets		
Cash and short-term investments	**$42,699**	$12,046
Accounts receivable (Note 7a)	**105,467**	105,340
Inventories	**8,010**	10,662
Prepaid expenses (Note 7a)	**28,817**	22,302
	184,993	150,350
Property, plant and equipment	**2,926,185**	2,895,108
Less accumulated depreciation	**1,981,373**	1,928,012
	944,812	967,096
Intangible assets	**57,331**	55,409
Less accumulated amortization	**29,886**	27,120
	27,445	28,289
Goodwill	**18,360**	18,360
Sinking funds	**58,657**	56,408
Deferred pension costs	**77,700**	60,761
Other assets	**17,275**	15,224
	$1,329,242	$1,296,488
Liabilities and Province's equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 7a)	**$120,523**	$131,606
Dividend payable	**17,170**	7,500
Services billed in advance (Note 7a)	**54,653**	50,073
Current portion of long-term debt	**24,542**	24,573
	216,888	213,752
Deferred revenue	**11,709**	12,274
Long-term debt	**327,600**	327,802
	556,197	553,828
Province of Saskatchewan's equity		
Equity advance (Note 5)	**250,000**	250,000
Retained earnings	**523,045**	492,660
	773,045	742,660
	$1,329,242	$1,296,488

See Accompanying Notes

Consolidated Statement of Cash Flows

Thousands of dollars	(Unaudited) Three months ended June 30, 2008	2007	Six months ended June 30, 2008	2007
Operating activities				
Net income (loss)	**$21,729**	$(10)	**$59,874**	$39,599
Adjustments to reconcile net income to cash provided by operations				
Depreciation and amortization	**43,049**	41,191	**85,405**	80,348
Contributions to defined benefit pension plans	**(9,681)**	(9,272)	**(19,540)**	(18,009)
Pension income of defined benefit plans	**(3,470)**	(1,296)	**(6,915)**	(2,895)
Special termination benefits costs	**9,384**	15,573	**9,384**	15,573
Net share of loss from significantly influenced companies	**-**	-	**-**	12
Sinking fund earnings	**(756)**	(267)	**(1,765)**	(991)
Change in fair value of financial instruments	**1,067**	1,646	**616**	1,950
Gain on sale of investments	**-**	-	**-**	(571)
Other	**(1,217)**	(141)	**(1,547)**	(60)
Net change in non-cash working capital (Note 7b)	**(3,209)**	(1,156)	**(12,928)**	(24,462)
	56,896	46,268	**112,584**	90,494
Investing activities				
Property, plant and equipment expenditures	**(35,459)**	(38,998)	**(58,681)**	(64,055)
Proceeds on sale of investment	**-**	-	**-**	1,100
Investments acquired	**-**	-	**-**	(460)
Customer accounts	**(1,030)**	(2,183)	**(1,922)**	(2,847)
	(36,489)	(41,181)	**(60,603)**	(66,262)
Financing activities				
Sinking fund installments	**-**	-	**(1,100)**	(1,100)
Repayment of long-term debt	**(67)**	(61)	**(130)**	(120)
Capital lease obligations	**(36)**	-	**(71)**	-
Dividends paid	**(12,319)**	(7,500)	**(19,819)**	(20,000)
Financing leases	**(38)**	(78)	**(208)**	(95)
	(12,460)	(7,639)	**(21,328)**	(21,315)
Increase (decrease) in cash	**7,947**	(2,552)	**30,653**	2,917
Cash and cash equivalents, beginning of period	**34,752**	21,579	**12,046**	16,110
Cash and cash equivalents, end of period	**$42,699**	$19,027	**$42,699**	$ 19,027
Comprised of:				
Cash			**$8,527**	$2,242
Short-term investments			**34,172**	16,785
Cash and short-term investments			**$42,699**	$19,027

See Accompanying Notes

Notes to Consolidated Financial Statements (Unaudited)
As at June 30, 2008

Note 1 – Interim financial statements

The unaudited interim consolidated financial statements should be read in conjunction with the Saskatchewan Telecommunications Holding Corporation's (the Corporation) December 31, 2007 audited consolidated financial statements. The interim consolidated financial statements of the Corporation have been prepared in accordance with generally accepted accounting principles in Canada. The accounting policies and methods for interim reporting purposes are consistent with those used in the preparation of the Corporation's audited consolidated financial statements for the year ended December 31, 2007, except as described in note 2.

Note 2 – Summary of significant accounting policies

Change in accounting policies and recent accounting pronouncements

Effective January 1, 2008, the Corporation adopted the accounting recommendations for capital disclosures (Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535) in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether externally imposed capital requirements have been complied with. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results.

Effective January 1, 2008, the Corporation adopted the accounting recommendations for financial instruments - disclosures (CICA Handbook Section 3862) and financial instruments - presentation (CICA Handbook Section 3863) in accordance with the transition provisions of the sections. These sections replace the existing disclosure and presentation recommendations contained in financial instruments – disclosure and presentation (CICA Handbook Section 3861). The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. The presentation standards carry forward unchanged the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results.

Effective January 1, 2008, the Corporation adopted the accounting recommendations for inventories (CICA Handbook 3031). The new recommendations establish standards for the determination of the cost of inventories and the subsequent recognition as expense, including any write-down to net realizable value and reversals of previous write-downs for increases to net realizable value. There is no material impact on the Corporation's operating results as a result of implementing the new recommendations.

Note 3 – Restructuring charges

During the period, $14,449,939 (2007 - $22,089,452) was recorded to restructuring charges. The charges relate to phase three of a proposed three-phase voluntary Early Retirement Program (ERP) for Saskatchewan Telecommunications.

The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. In the first six months of 2008, 60 (2007 – 83) employees elected to receive a package that includes a cash allowance and immediate pension benefits.

Note 3 – Restructuring charges, continued

Thousands of dollars	June 30, 2008	December 31, 2007
Balance in accounts payable and accrued liabilities at January 1	**$9,922**	$8,102
Restructuring charges	**14,450**	45,792
Less:		
Cash payments	**6,914**	12,088
Special termination benefits costs	**9,384**	31,884
Balance in accounts payable and accrued liabilities	**$8,074**	$9,922

Note 4 – Interest and related items

	(Unaudited)			
	Three months ended June 30,		Six months ended June 30,	
Thousands of dollars	**2008**	2007	**2008**	2007
Interest on long-term debt	**$6,764**	$7,105	**13,503**	14,226
Sinking fund earnings – held for trading	**(756)**	(267)	**(1,765)**	(991)
Change in fair value of sinking fund	**1,067**	1,646	**616**	1,950
Interest income	**(366)**	(276)	**(486)**	(424)
	$6,709	$8,208	**11,868**	**14,761**

Note 5 – Equity advance and capital disclosures

a) Equity advance

As a Saskatchewan Provincial Crown corporation, the Corporation's equity financing is in the form of equity advances of $250,000,000 from Crown Investments Corporation of Saskatchewan.

b) Additional capital disclosures

The Corporation's objectives when managing capital are to ensure adequate capital to support the operations and growth strategies of the Corporation, and to ensure adequate returns to the shareholder.

The capital structure is determined in conjunction with the shareholder based on the approved business plans.

The Corporation monitors capital on the basis of the debt ratio. The ratio is calculated as net debt divided by end of period capitalization. Net debt is defined as total debt less sinking funds, and cash and cash equivalents. Capitalization includes net debt, equity advances and retained earnings at the period end.

The Corporation's strategy, which is unchanged from 2007, is to maintain a debt to equity ratio of below 45%.

Note 5 – Equity advance and capital disclosures, continued

The debt ratio is as follows:

	June 30, 2008	December 31, 2007
		Thousands of dollars
Total debt	**$352,142**	$352,375
Less: Sinking funds	**58,657**	56,408
Cash and short-term investments	**42,699**	12,046
Net debt	**250,786**	283,921
Equity	**773,045**	742,660
Capitalization	**$1,023,831**	$1,026,581
Debt ratio	**24.5%**	27.7%

Note 6 – Contingencies

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning system administration fees. The Plaintiffs seek unquantified damages from the defendant wireless communications service providers. Similar proceedings have been filed by, or on behalf of, Plaintiffs' counsel in other provincial jurisdictions. On July 18, 2006, the Saskatchewan court declined to certify the action as a class action, but granted the Plaintiffs leave to renew their application in order to further address certain statutory requirements respecting class actions. The Plaintiffs renewed their application for certification and the renewed application was heard in June of 2007. On September 17, 2007, the Saskatchewan court certified the Plaintiff's proceeding as a class action with respect to an allegation of unjust enrichment only. The Corporation, together with all other defendants in the proceedings have filed motions with the Saskatchewan Court of Appeal seeking leave to appeal the decision of the court certifying the action as a class action. The Corporation's leave to appeal application is presently before the Court of Appeal. No specific date has yet been set for the hearing of that application. The application has recently been adjourned pending two motions that need to be decided before SaskTel's application for leave to appeal can be heard. The Corporation continues to believe that it has strong defenses to the allegations and that legal errors were made by the court in the certification proceeding.

On March 20, 2007, R.L.T.V. Investments Inc. brought a lawsuit against Saskatchewan Telecommunications Holding Corporation, Saskatchewan Telecommunications and several current and former officers and employees of Saskatchewan Telecommunications. The lawsuit includes allegations that the Corporation wrongfully obtained its Multipoint Communication Systems (MCS) licence in Saskatchewan and is legally responsible for the failure of Image Wireless Communications Inc. as a consequence of alleged breach of contract, intentional interference with trade or business, deceit, misrepresentation and breach of the *Competition Act*. The Plaintiff claims damages in excess of $87 million. The Corporation believes that it has strong defenses to the allegations and a motion to strike all claims against the defendants was heard on September 25, 2007. The court struck the lawsuit in its entirety and the Plaintiff has appealed the decision to the Saskatchewan Court of Appeal.

Note 6 – Contingencies, continued

On June 26th, 2008, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including Saskatchewan Telecommunications Holding Corporation and Saskatchewan Telecommunications. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, unjust enrichment and breach of statutory obligations concerning fees and charges paid for 9-1-1 service. The Plaintiffs seek unquantified damages from the defendant wireless communications service providers. Thus far the claim has simply been issued by the Plaintiffs. The Corporation is not aware whether all the named defendant wireless carriers have been served with the claim yet. The Corporation believes that it has strong defenses to the allegations that are made by the Plaintiffs in the claim and will be strongly defending and opposing the claims that have been made. External legal counsel has been retained by the Corporation to handle this matter.

Should the ultimate resolution of these actions differ from management's assessments and assumptions, a material adjustment to the Corporation's financial position or results of operations could result.

Note 7 – Additional financial information

a) Balance sheet

Thousands of dollars	June 30, 2008	December 31, 2007
Accounts receivable		
Customer accounts receivable	$89,575	$83,531
Accrued receivables - customer	5,158	5,666
Allowance for doubtful accounts	(5,291)	(4,941)
	89,442	84,256
High cost serving area subsidy	5,202	5,651
Other	10,823	15,433
	$105,467	$105,340
Prepaid expenses		
Prepaid publishing costs	$10,547	$9,559
Prepaid expenses	9,155	6,406
Prepaid salaries - Centennial plan	2,750	24
Deferred service connection charges	6,365	6,313
	$28,817	$22,302

Note 7 – Additional financial information, continued

Thousands of dollars	June 30, 2008	December 31, 2007
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	$59,429	$68,192
Payroll and other employee-related liabilities	49,178	52,421
Taxes payable	6,605	5,730
Interest payable	4,791	4,809
Other	520	454
	$120,523	$131,606
Services billed in advance		
Advance billings	$42,383	$38,126
Deferred customer activation and connection fees	8,717	8,612
Customer deposits	3,553	3,335
	$54,653	$50,073

b) Supplementary cash flow information

Thousands of dollars	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Net change in non-cash working capital				
Accounts receivable	$(4,335)	$(4,858)	$(1,202)	$1,319
Inventories	(438)	(1,717)	1,403	(2,153)
Prepaid expenses	433	(3,322)	(6,515)	(11,551)
Accounts payable and accrued liabilities	1,040	8,821	(10,954)	(17,711)
Deferred revenue	(651)	(229)	(590)	(320)
Deferred expenses	(337)	136	349	243
Services billed in advance	1,079	13	4,581	5,711
	$(3,209)	$(1,156)	$(12,928)	$(24,462)
Interest Paid	$7,341	$7,549	$13,333	$14,029

Note 8– Financial instruments

The Corporation's financial instruments include cash and short-term investments, accounts receivable, sinking funds, foreign currency derivatives, accounts payable, accrued liabilities, dividend payable and long-term debt, which by their nature are subject to risks.

a) Currency risk

The Corporation is exposed to currency risk, primarily US dollars, through transactions with foreign suppliers and short-term foreign commitments. Assuming all other variables remained constant at June 30, 2008, only currency

Note 8– Financial instruments, continued

fluctuations in excess of 10% would have a material impact on budgeted net income. Specifically, a 10% weakening in the Canadian dollar versus US dollar exchange rate would have a 6.7% unfavourable effect on budgeted net income while a 10% strengthening would have a 6.7% favourable effect on budgeted net income. The Corporation uses a combination of derivative financial instruments to manage these exposures when deemed appropriate. The Corporation does not actively trade derivative financial instruments.

The Corporation has entered into foreign currency hedges to mitigate exposure to the volatility of the US dollar in relation to the Canadian Dollar. Foreign currency fluctuations could cause changes in the mark to market valuation of the foreign currency hedges, however fluctuations of 10% would not have a material effect on budgeted net income. At June 30, 2008 the Corporation had derivative financial instruments (foreign currency forwards) outstanding with a notional value of $1,368,090. At December 31, 2007, there were no derivative financial instruments outstanding.

b) Interest rate risk

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on short-term investments, short-term obligations and long-term debt. The most significant of these is interest rate risk related to issuance of long-term debt. However, assuming all other variables remained constant at June 30, 2008, a 10% (47 basis point) increase or decrease in interest rates would not have a material impact on budgeted net income.

Interest rate risk on short and long-term liabilities are managed based on the refinancing needs of the Corporation using derivative financial instruments when deemed appropriate.

The average effective interest rate on the Corporation's long-term debt was 7.67% while the average interest rate on long-term debt was 7.68%.

c) Market risk

The Corporation is exposed to market risk primarily through the sinking funds. Fair value adjustments will fluctuate based on changes in market prices. The sinking funds consist of mostly Provincial government and Federal government bonds with varying maturities to coincide with related debt maturities and are managed based on this maturity profile and market conditions. Fair value adjustments similar to those experienced in 2007 would not have a material impact on budgeted net income.

d) Credit risk

The Corporation is exposed to credit risk through its short-term investments, accounts receivable sinking fund assets and derivative financial instruments. Credit risk related to short-term investments, sinking fund assets and derivative financial instruments is minimized by dealing with institutions that have strong credit ratings. Credit risk related to customer accounts receivable is minimized because of the large and diverse customer base covering many consumer and business sectors. The Corporation evaluates customer credit risk and limits credit availability when necessary.

Notes to Consolidated Financial Statements (Unaudited)
As at June 30, 2008

Note 8– Financial instruments, continued

The carrying amount of financial assets represents the maximum credit exposure as follows:

	June 30, 2008	December 31, 2007
		Thousands of dollars
Cash and short-term investments	$42,699	$12,046
Accounts receivable	105,467	105,340
Sinking fund – held for trading assets	58,657	56,408
Foreign currency derivatives	46	-
	$206,869	$173,794

The aging of customer receivables, which indicates potential impairment losses, is as follows:

	June 30, 2008	December 31, 2007
		Thousands of dollars
Current	$64,973	$61,963
30-60 days past billing date	14,778	14,994
61-90 days past billing date	5,316	3,837
Greater than 90 days past billing date	4,508	2,737
Total	$89,575	$83,531

Provisions for credit losses are maintained and regularly reviewed by the Corporation, based on an analysis of the aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

	June 30, 2008	December 31, 2007
		Thousands of dollars
Allowance for doubtful accounts, opening balance	$4,941	$5,162
Accounts written off	(4,788)	(12,585)
Recoveries	1,694	4,513
Provision for losses	3,444	7,851
Allowance for doubtful accounts, closing balance	$5,291	$4,941

Note 8– Financial instruments, continued

c) Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments:

June 30, 2008

Thousands of dollars	Carrying Amount	Contractual cash flows	6 mths or less	7-12 mths	2 years	3-5 years	More than 5 years
Long-term debt, Saskatchewan	$344,933	($653,504)	($34,112)	($12,284)	($24,569)	($149,869)	($432,670)
Other long-term debt	6,666	(8,726)	(336)	(336)	(673)	(2,018)	(5,363)
Dividend payable	17,170	(17,170)	(17,170)	-	-	-	-
Accounts payable and accrued liabilities	120,523	(120,523)	(120,523)	-	-	-	-
	$489,292	($799,923)	($172,141)	($12,620)	($25,242)	($151,887)	($438,033)

December 31, 2007

Thousands of dollars	Carrying Amount	Contractual cash flows	6 mths or less	7-12 mths	2 years	3-5 years	More than 5 years
Long-term debt, Saskatchewan	$344,964	($664,156)	($13,333)	($34,112)	($24,569)	($149,956)	($442,186)
Other long-term debt	6,694	(9,063)	(336)	(336)	(673)	(2,018)	(5,700)
Dividend payable	7,500	(7,500)	(7,500)	-	-	-	-
Accounts payable and accrued liabilities	131,606	(131,606)	(131,606)	-	-	-	-
	$490,764	($812,325)	($152,775)	($34,448)	($25,242)	($151,974)	($447,886)

Sufficient operating cash flows are expected to be generated to fund these contractual obligations. In addition, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows.

f) Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The carrying value of cash and short-term investments, accounts receivable, accounts payable, accrued liabilities and dividend payable approximates their fair values due to the short-term maturity of these financial instruments.

Sinking funds are recorded at fair value based on quoted market prices for the securities held by the fund.

Note 8– Financial instruments, continued

The fair values of the Corporation's long-term debt are estimated based on quoted market prices for the issues or for similar issues.

Thousands of dollars	June 30, 2008 Carrying Value	June 30, 2008 Fair Value	December 31, 2007 Carrying Value	December 31, 2007 Fair Value
Long-term debt, Province of Saskatchewan	**$344,933**	**$430,059**	$344,964	$436,908
Other long-term debt	**6,666**	**6,857**	6,694	7,475
Derivative financial instruments	**46**	**46**	-	-

Note 9 – Pension costs

The table below shows the cost components of the defined benefit pension plan.

Thousands of dollars	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Current service cost - defined benefit plan	**$(636)**	$(1,112)	**$(1,288)**	$(2,223)
Interest cost	**(13,508)**	(13,073)	**(26,991)**	(26,151)
Expected return on pension plan assets	**15,932**	14,811	**31,830**	29,930
Special termination benefits costs	**(9,384)**	(15,573)	**(9,384)**	(15,573)
Amortization of net transitional asset	**2,912**	2,913	**5,825**	5,825
Amortization of past service costs	**(881)**	(952)	**(1,762)**	(1,904)
Amortization of actuarial loss	**(349)**	(1,291)	**(699)**	(2,582)
Pension cost	**$(5,914)**	$(14,277)	**$(2,469)**	$(12,678)

Note 10 – Subsequent event

The Advanced Wireless Services (AWS) Auction of wireless spectrum in Canada concluded on July 21, 2008. Through the auction process, the Corporation has acquired 30 megahertz of AWS spectrum and 10 megahertz of Personal Communications Service spectrum within the Province of Saskatchewan for $65,690,000. The AWS spectrum will be used to provide future enhanced wireless service offerings.

Note 11 – Comparative figures

Certain of the 2007 figures have been reclassified to conform to the current period's presentation.